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Key Issues in Trade Facilitation

Summary of World Bank/ EU Workshops in Dhaka and Shanghai in 2004 *

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Abbreviations

ADB	Asian Development Bank
AEC	ASEAN Economic Community
AHTN	ASEAN Harmonized Tariff Nomenclature
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
ASYCUDA	Automated System for Customs Data
CB	Capacity Building
CEFACT	Center for Trade Facilitation and Electronic Business
CSI	Container Security Initiative
C-TPAT	Customs-Trade Partnership against Terrorism
DTIS	Diagnostic Trade Integration Study
ICC	International Chamber of Commerce
EDI	Electronic Date Interchange
EDIFACT	Electronic Data Interchange for administration, commerce and transport
EU	European Union
FIATA	International Federation of Freight Forwarders
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GFP	Global Facilitation Partnership
GMS	Greater Mekong Sub-region
ICT	Information Communication Technology
IMF	International Monetary Fund
IMO	International Maritime Organization
ISPS	International Ship and Port Facility Security Code
IT	Information Technology
ITC	International Trade Commission
MFN	Most Favored Nation
MRA	Mutual Recognition Agreement
OECD	Organization for Economic Development and Cooperation
OSC	Operation Safe Commerce
PSI	Pre Shipment Inspection
RTA	Regional Trade Agreement
SCM	Supply Chain Management
SCO	Shanghai Cooperation Organization
SITPRO	Simplifying International Trade
SME	Small and Medium Enterprise
SPS	Sanitary and phyto-sanitary standards
SSI	Single Stop Inspection
STAR	Secure Trade in the APEC region
SWEPRO	Swedish Trade Procedures Council
SWI	Single Window Inspection
TA	Technical Assistance

TBT	Technical Barriers to Trade
TEU	Twenty Feet Equivalent Unit
TF	Trade Facilitation
TTF	Transport and Trade Facilitation
TTFSE	Trade and Transport Facilitation in Southeast Europe
UNCTAD	United Nations Conference for Trade and Development
UNECE	United Nations Economic Commission for Europe
UneDocs	United Nations electronic Trade Documents
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNIDO	United Nations Industrial Development Organization
US	United States
VAT	Value Added Tax
WB	World Bank
WCO	World Customs Organization
WTO	World Trade Organization

Introduction

Trade facilitation (TF) has emerged as an important issue in unilateral, bilateral, and multilateral trade liberalization. Its importance is fully recognized by all national policymakers. Most countries have embarked upon heroic reforms aimed at reducing transaction costs of trade. Thus, among the four new Singapore issues, there was least resistance from WTO member countries to include Trade facilitation in the Doha Round discussions. However, all countries are not equally placed in initiating reforms. Several countries need extra support to facilitate trade because they lack both human and financial resources.

Reforms aimed at trade facilitation require a large volume of technical assistance for national capacity building. To start with, there needs to be a fuller realization of what these reforms entail, and what can be learnt from cross-country experiences. In order to facilitate this, the EU and the World Bank organized two workshops in Dhaka and Shanghai in 2004. Jointly they succeeded in bringing together renowned experts from multilateral organizations, selected bilateral donor community, the private sector, ex civil servants, and scholars. The participants were largely drawn from the relevant government departments and chambers of commerce and industry. Top ministers of host countries inaugurated the workshops. The Dhaka workshop focused on South Asian countries; and the Shanghai event gathered together countries from East Asia.

This paper attempts to summarize the main presentations according to major themes touched upon in the workshops. It also indicates the areas that need more focus in future events. This came out of the discussions in the two workshops. The paper should serve a useful purpose as a reference document for future seminars and workshops on trade facilitation. Electronic links are provided to all presentations, as well as an exhaustive bibliography at the end. The paper has also benefited from the ongoing research work on trade facilitation in the World Bank.

1. Defining Trade Facilitation

The ability of countries to deliver goods and services on time at lowest possible costs is a key determinant of integration into the world economy. With the dismantling of trade barriers and the expansion in the volume of trade, policies that remove non-tariff barriers and expedite the movement of goods and services across borders i.e. facilitate trade have emerged at the forefront of the trade agenda. The definition of trade facilitation is constantly evolving[1]. Trade facilitation (TF) aims to make trade procedures as efficient as possible through the simplification and harmonization of documentation, procedures and information flows.

In a narrow sense, it addresses the logistics of moving goods through ports or customs. More broadly, it encompasses several inter-related factors such as customs and border agencies, transport infrastructure (roads, ports, airports etc.), services and information

[1] For further Reading on TF components, please see Presentation by Peter Wilmott (SITPRO)

technology (as it relates to better logistics), regulatory environment, product standards, Technical Barriers to Trade (TBT)[2] etc. in order to lower cost of moving goods between destinations and across international borders.

Constraints in supply chains and trade logistics include a number of important barriers to exports for developing countries such as the lack of harmonized transport systems, frequent reloading of goods, port congestion, excessive documentation requirements, burdensome cross-border procedures, lack of automation and scarce use of IT. One study shows, for example, that for 168 out of 215 U.S. trading partners, transport cost barriers outweigh tariff barriers (World Bank, 2002). In a highly integrated economy focused on just-in-time manufacturing, seamless trade transactions can deliver the time and costs savings necessary to remain competitive. Easier movement of goods and services across borders can reduce costs for businesses, and increase predictability and transparency for small and medium enterprises (SMEs). At the same time, governments can gain through better revenue collection, and improved security and control.

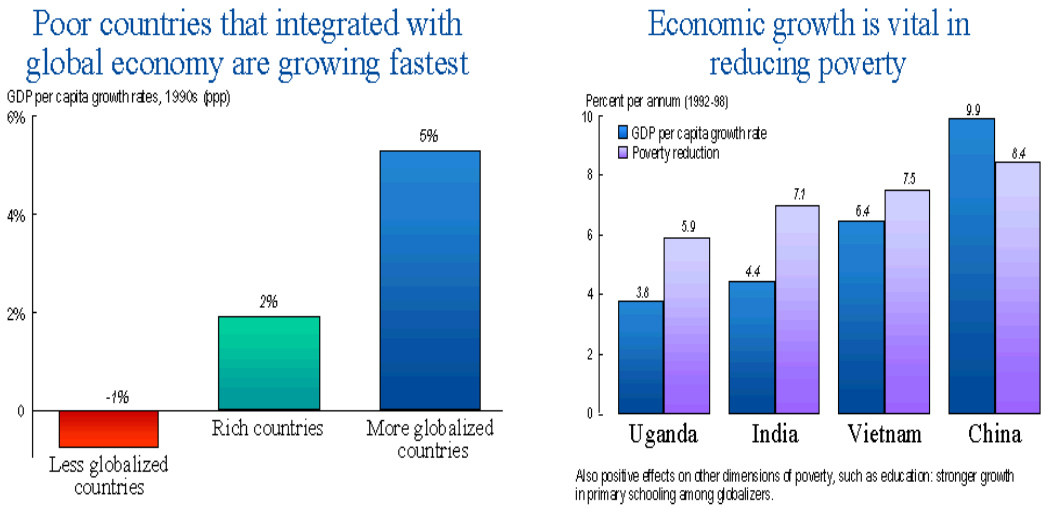
The importance of TF is evident in the complexity that surrounds cross-border movement: An international trade transaction normally involves 27-30 different parties, about 200 data elements, 40 documents and costs that range between 2.5-15% of the goods value. One extra day of clearance represents up to one tariff point (Hummels, 2001). UNCTAD has estimated direct and indirect transaction costs (customs, banking, insurance, transport etc.) to be 10% of the total value of world trade (US$400 billion).

2. Trade Facilitation and Development[3]

Empirical evidence indicates that trade is good for growth. Developing countries that are integrating faster with the world economy tend to have higher growth rates, and lower poverty levels (See Figure 1). High transaction costs are a huge impediment for growth of emerging economies. Factors that facilitate trade determine the extent of integration with the world economy, and therefore growth and development. Trade facilitation can also lead to better national administrative efficiency and higher competitiveness for nations.

[2] Some have suggested including business mobility, transparency of procedures, trade information and e-business facilities in this broad definition of TF.
[3] This section draws on presentations by Bert Hofman (World Bank) and Jayanta Roy (CII, India).

Figure 1. Trade is good for growth…….and growth for the poor



Source: The World Bank

All countries stand to gain from an agreement on trade facilitation, particularly developing countries given that they face proportionately higher costs of doing business. Land locked countries for instance, need an efficient transit system for external trade. Reduction in trade transaction costs can generate huge benefits to trade, especially south-south trade. A number of empirical studies have shown that easier movement of goods and services affects export competitiveness. For example, logistics accounted for no less than a third of the cost of door-to-door shipment of containerized carpets from Nepal to Germany and teabags from India to the United Kingdom (Subramanian and Arnold, 2001).

Quantifying the gains of trade facilitation is complex. Walkenhorst and Yasui (2003)[4], estimate welfare gains as a result of a 1% reduction in trade transaction costs to be about US$40 billion worldwide. According to an APEC study, trade facilitation measures can reduce trade transaction costs between 1-3% of the value of world trade, and generate additional GDP growth. UNCTAD (2001) shows that a 1 percent reduction in the cost of maritime and air transport services could increase Asian GDP by some US $3.3 billion. Wilson, Mann, and Otsuki (2004) find that enhanced capacity in global trade facilitation would increase world trade of manufacturing goods by approximately $377 billion dollars – an increase of about 9.7 percent.

[4] This provides a comprehensive overview of several studies that quantify benefits of TF

3. Trade Facilitation in the Multilateral Context[5]

Trade facilitation was added to the World Trade Organization (WTO) agenda at the first Ministerial Conference held in Singapore in December 1996. Although a relatively new entrant, it has been under the purview of the WTO through several agreements such as Agreements on SPS, TBT, rules of origin, import licensing, and pre-shipment inspection[6]. In particular, Articles V, VIII and X have been an integral part of General Agreement on Tariffs and Trade (GATT) for over 50 years.

However, the GATT/WTO framework for trade facilitation has so far been largely ineffective in producing change on a large scale – necessitating modernization of these rules. The Doha Development Agenda, in particular, sought to address this issue and identified trade facilitation as one of the items to be considered during the period leading up to the next ministerial. All relevant aspects of the three GATT Articles would be clarified and improved in that time frame. The Cancun Ministerial Conference of the WTO in September 2003 failed to launch the negotiation on trade facilitation. Nevertheless, it is important to note that trade facilitation is the only Singapore issue that has remained in the July 2004 WTO Framework Agreement, where WTO members reached consensus to launch negotiations on trade facilitation. The need for collaborative effort on the part of all international organizations in terms of technical assistance and capacity building was also recognized.

The current TF agenda focuses specifically on three articles of the GATT. Article V (Freedom of Transit) deals with the simplification and modernization of transit rules. It prohibits discrimination by applying the principles of MFN and national treatment. Article VIII (Fees and formalities related to importation and exportation) focuses on simpler import and export forms, standardizing fees, rules and border procedures. Article X (Publication and administration of trade regulations) underscores measures to improve transparency primarily via publication in the implementation of customs and other rules. Various WTO members have made proposals under Articles V, VIII and X[7].

Is there a need for a multilateral framework for TF?

TF subsumes activities that require sufficient political support to induce change. In this regard the natural choice for an appropriate forum is the WTO. An effective WTO Multilateral TF Agreement is the first step towards a more comprehensive program for TF globally. Given the integrated and global nature of the supply chain, such an agreement can (a) provide a framework for addressing crosscutting trade issues; (b) garner support and cooperation of the international trading community and border agencies (in terms of resources and expertise); (c) provide an impetus for capacity

[5] See presentations on Multilateral Aspects of Trade Facilitation and the Doha Round by Nora Neufeld and Xiaobing Tang (WTO); John Clark (EU); Peter Wilmott (SITPRO).

[6] These agreements include certain TF features within their scope. For example, establishment of inquiry points is espoused by SPS/TBT agreements, while the Import Licensing agreement supports the use of simple procedures and forms, and the single window concept.

[7] For detail on proposals made by delegations refer to WTO Council of Trade Document G/C/W/434

building; (d) increase predictability for business and governments; and (e) help lock in domestic reform.

A WTO agreement on TF would not replace other instruments that address elements of TF. While the WTO GATT Articles highlight the formalities and procedures for movement of goods, as well as publication and administration of trade regulations; World Customs Organization (WCO) instruments, including the Kyoto Convention[8], provides a solid basis and practical guidelines for their implementation. The incorporation of key principles from those instruments could help raise performance levels.

However WTO rules are not a panacea. Rule making has to be combined with sufficient flexibility to address developing countries concerns[9]. Obligations have to be matched with the capacity to implement, and programs have to be tailored to suit needs and requirements of each individual country. Thus the importance of capacity building, technical assistance and special and differential treatment (exemption from certain commitments) cannot be over-emphasized. These can be integrated with national and regional programs or include other targeted actions (such as pre arrival processing, user-friendly documentation, border opening hours) to maximize efficacy.

The Bocksburg Group has outlined a "ladder approach" to a multilateral agreement on TF. Under this, a multilateral agreement would set a basic set of standards for border-related processes. Members would have the option of implementing other non-mandatory standards based on their individual assessments of their capacity – to indirectly move up the rungs of the ladder. Analytical and measurement tools would be provided by peer reviews. This would be combined with capacity building that could further aid in compliance with higher option standards. Dispute Settlement would apply to a TF agreement, but would be restricted to obligations to which members were signatories, and for which they had the capacity.

In summary, while existing GATT Articles provide a sound basis for TF, they are insufficient in themselves to have an impact. In the absence of a TF agreement, developing countries will stand to be the biggest losers. National, bilateral and regional initiatives (outlined below) only address TF partially and cannot yield comprehensive reform necessary to ensure wide benefits for all. Thus, a multilateral agenda for TF with global engagement is a prerequisite for success in the long run.

4. Regional Aspects of Trade Facilitation

WTO rules and regional arrangements are mutually supportive and the development of WTO rules can draw useful lessons from regional experiences. Regional arrangements on

[8] The Revised Kyoto Convention is an international convention on the simplification and harmonization of customs procedures. It is compatible with and complementary to the WTO Articles, and encompasses core principles of standardization, simplification, predictability, transparency, risk management, global co-operation, partnership with private business and the use of IT.

[9] Further detail on concerns expressed by developing country, including recommendations on modalities to move ahead on TF can be found in Bagai, Newfarmer, Wilson (2004).

TF can thus serve as a platform for a broader multilateral framework. For example, the WTO can set commitments that would be applied at a regional level, e.g. transit regimes. Customs unions and FTAs can include TF and customs reform in their agendas. Work is underway in linking trade facilitation with transport logistics in several regions (See Box 1 for ASEAN). For greater efficiency, regional strategies have to be coordinated with multilateral and national level policies to avoid duplication.

Box 1. Facilitating Trade in ASEAN[10]

A deepening of economic integration in ASEAN has been concomitant with an expansion of trade facilitation activities such as harmonization of standards and facilitation of goods in transit. At the 9th ASEAN Summit in 2003, the ASEAN Leaders adopted a framework to achieve an ASEAN Economic Community (or AEC) by 2020 with a view to create a single market and production base with free flow of goods, services, investment skilled labor, and greater mobility of capital. This would naturally entail a huge effort towards TF in the entire region.

TF in ASEAN is focused on the principles of transparency, simplification, harmonization and modernization. Such an integrated approach aims to streamline and synchronize efforts in transport, customs, standards and non-tariff measures. For example, to increase transparency, a customs website has been established where interested parties can get information regarding customs cooperation and provisions in ASEAN. Simplification of transport procedures and requirements come under the ASEAN Framework Agreement on Facilitation of Goods in Transit. Steps such as harmonization of customs valuation methods in ASEAN member countries through the adoption of the WTO Valuation Agreement, and uniformity in the classification of goods through the implementation of the ASEAN Harmonized Tariff Nomenclature (AHTN) are being undertaken. Also, ASEAN member countries have harmonized product standards, involving 59 international standards on the 20 priority sectors.

Some future areas of work have been identified to facilitate trade further such as improving rules of origin, faster customs clearance and simplified customs procedures, ensuring transparency on non-tariff measures, and accelerating the completion and implementation of MRAs.

Several multilateral organizations are laying emphasis on facilitating trade regionally. The Asian Development Bank[11] is playing a role in facilitating trade in the Greater Mekong Subregion (GMS) through improvements in the efficiency of the trade transaction process. The project encompasses development of business linkages, modern border management system, development of access to trade finance for export production, customs transit and transport regimes, multimodal transport operations, improving the proficiency of exporters etc. Other important policy areas of work include stimulating the development of container ports, restructuring the trucking industry and improving market entry conditions to facilitate service provision by financially capable market contestants.

The World Bank[12] program also helps regional initiatives in Trade Facilitation. Its regional strategy focuses on analytical work and research (East Asia Integrates 2004,

[10] Please refer to presentation on ASEAN by Noordin Azhari
[11] Please see presentation by Madeleine Varkay on the role of ADB in TF
[12] For further detail on World Bank efforts refer to El-Hefnawy

Trade and Logistics in East Asia: A Development Agenda 2003 etc). In addition, The World Bank has continuously supported ongoing regional efforts by other development partners e.g. Cooperation with ADB in the Greater Mekong Sub-region (also supported by UNESCAP). Some country specific efforts directed at TF include the Philippines Logistics Study, Logistics Development and Trade Facilitation in Lao etc. The Mekong transport infrastructure development project in Vietnam for instance aims to improve the supply chain from point of production to point of export/import[13].

UNESCAP[14] has been providing support to regional TF through its collaboration with UNECE in forming a Working Group on Transport and Border Crossing Facilitation. They have also collaborated to develop Euro-Asian linkages in 17 countries by identifying corridors and investing in infrastructure. The Shanghai Cooperation Organization (SCO) established in 2004 with 6 members includes 11 agreements and deals with different aspects of TF. TF will also feature in the next five-year development aid plan (2006-11) of the EU.

Thus, stronger engagement with member countries, ASEAN, UNESCAP, ADB and other development partners can further develop and implement regional strategies, and provide further impetus for TF.

5. Unilateral Approach to Trade Facilitation

At the national level, the process of reform has to be triggered by the country itself, by garnering support from the political and bureaucratic echelons, as well as the trading community. The customs reform agenda must be included as part of a broader TF plan. At the same time, keeping abreast of developments in the regional and international arena is necessary. Setting up the infrastructure for TF is a difficult process for developing countries given their constraints on resources and expertise. Efforts by several countries are noteworthy in this regard (See Box 2).

[13] The Trade and Transport Facilitation in South-East Europe Program (TTFSE) is another example of an endeavor bringing together eight countries, the World Bank, and donors with the aim of fostering trade by promoting more efficient and less costly trade flows across the region.
[14] Barry Cable has outlined UNESCAP initiatives.

Box 2. Trade Facilitation in India[15]

India faces several problems in seamless trade transactions and the costs involved in trading with India are significant[16]. While some impressive gains have been made over the last decade in terms of reducing transaction costs, India is not at par with current global standards. Cargo dwell times at Indian ports and airports is high – with the import dwelling time ranging from 7-14 days compared to the international standards of less than 24 hours (see Table). The trading process is cumbersome and bureaucratic – the number of documents required for export clearance is 29.

Typical Cargo Dwell Time

Transaction	Location	Norm
Air Freight	Delhi Airport	
Export	2.5 days	Less than 12 hours
Import	15 days	Less than 12 hours
Containerized Sea Freight	Mumbai	
Ship Waiting Time	3-5 days	Less than 6 hours
Export Dwell Time	3-5 days	Less than 18 hours
Import Dwell Time	7-14 days	Less than 24 hours

The Government has taken positive steps towards reform to address these issues. EDI for instance, was introduced in 1995 and now covers 90% of total declaration with customs. Recent initiatives have seen a reduction in dwell times, physical inspection and demurrage paid for hold ups. Despite these achievements, dwell time remains relatively high for imports (4-6 days for airports and 6-8 days for seaports) and the paper trial is still a barrier to effective e-interface. The Working Group on Trade Facilitation set up by Government of India in April 2004 found that inefficiency and lack of incentives in proper payment systems for duties and lack of proper inter-agency co-ordination was the main cause for the high dwell time. They acknowledged the need for further reforms, with an aim at transparent procedures with minimum number of signatures.

Cambodia[17] carried out a Diagnostic Trade Integration Study (DTIS) (part of the Integrated Framework), with the objectives of competing, connecting and conforming to the global market and its requirements. Upgrading supply capacities and infrastructure were identified as key factors for higher competitiveness. Cambodia has adopted an integrated approach to TF encompassing bureaucratic procedures, standards, administrative reforms and interaction with the private sector and the academia. Future strategies are aimed at tackling process inefficiencies by streamlining bureaucracy and business registration as well as adopting a value chain approach to removing

[15] Please refer to presentation by Jayanta Roy (CII, India)

[16] India will benefit from TF at the WTO given its high transaction costs and unilateral reform in the same direction.

[17] Presentation by Sok Siphana on Cambodia's efforts in setting up a national TF body.

impediments. At the same time, capacity-building programs with the World Bank and EU have started in Cambodia.

Public-private sector cooperation and collaboration is urgently needed. The UK government, for instance, initiated and funded a center for expertise on Trade Facilitation (SITPRO[18]) with the goal of increasing the efficiency of supply chain and simpler trade procedures. SITPRO employs private sector based working groups; takes a stand on policy issues; and conducts conferences and seminars to implement and disseminate expertise on TF. Its advantage lies in having a sole focus coupled with advocacy skills based on in-depth knowledge and experience. For a successful adaptation of this model[19], legitimacy with the country government and with the private sector and full understanding of public sector values and processes are necessary.

6. Role of Customs in Trade Facilitation[20]

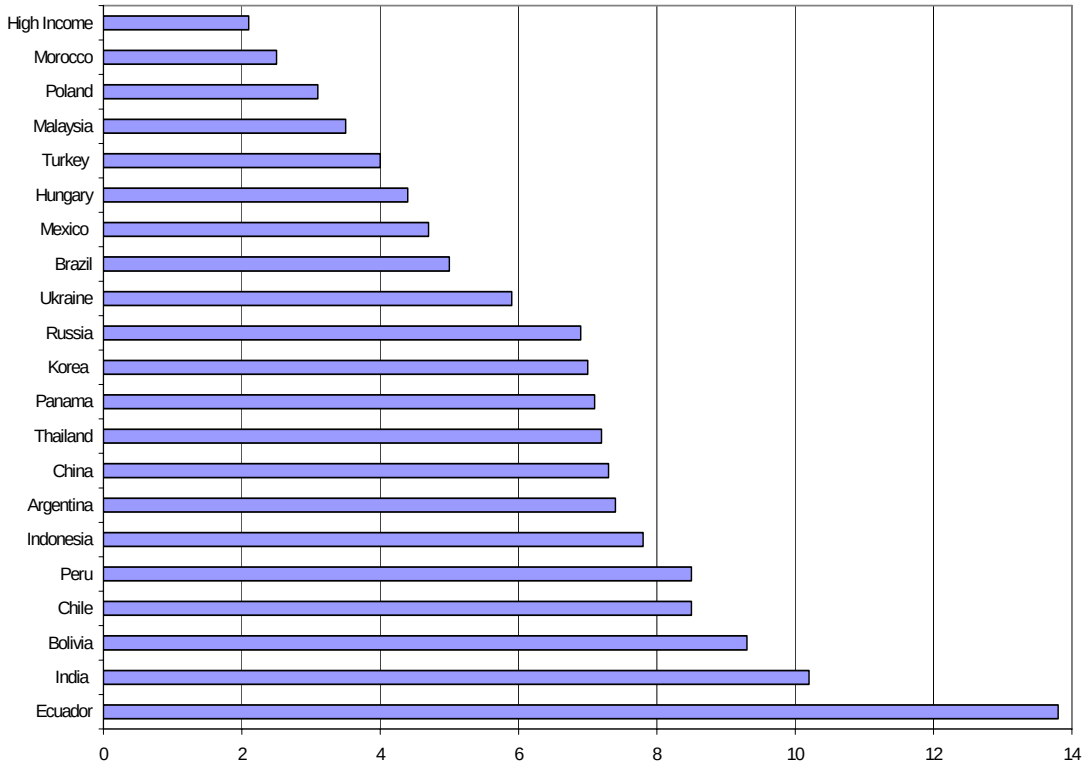
With an increased emphasis on administrative reform, governance, and security, the need for an efficient and effective customs administration is felt urgently. Customs is an intrinsic element of any cross border movement of goods and services, and yields significant influence on the national economy. It is the unique vantagepoint, where it has a good understanding of the supply chain as well as routine access to trade intelligence and data. Beyond facilitating trade, Customs performs other important functions such as revenue collection and protection against dangerous goods. The time taken for clearance of goods has an impact on the competitiveness of countries.

[18] Presentation by Peter Wilmott (SITPRO)

[19] Other alternatives are self-funded business-based model in France (ODASCE), or Chambers of Commerce.

[20] For an overview of Customs, please refer to Presentation by Michel Zarnoweicki (World Bank), and Matsudaira (WCO). See also ICC Customs Security Toolkit, ICC Customs Guidelines, ICC Integrity Toolkit.

Figure 2. Long clearance through customs adds to transport costs…
Average days required for customs clearance for imports



Source: World Bank, World Business Environment Surveys and Investment Climate Surveys, reproduced in Bagai, Newfarmer, Wilson (2004).

Complex requirements in cross-border trade increase the possibility for corruption. For example, at the key border crossing point between India and Bangladesh as many as 1,500 trucks queue up on both sides of the border with waiting times varying between one and five days to complete documentation requirements. Expediting customs clearance procedures reduces the discretionary power of customs officials, thus reducing the scope for corruption. An efficient, friendly and corruption free customs can help boost trade and investment. An empirical study by Cudmore (2004) finds that reducing border delays is critical for trade liberalization to have a positive impact on welfare.

TF in the context of customs involves the avoidance of unnecessary trade restrictiveness – while strengthening the quality of controls in an internationally harmonized manner. Customs can play an important role in TF by speeding up its reforms, providing best practices to other trade sectors, enhancing implementation capacity – contingent on support from all stakeholders (See Box 3).

Box 3. Customs Role in International Trade Facilitation in China[21]

Given the sheer volume of trade handled by the port of Shanghai and the large presence of Fortune 500 Companies, a need for customs and port reforms was acknowledged. The China 'e-port' project was initiated in 1999 in keeping with the Chinese Customs Guidelines.

Chinese customs focuses on enhancing enforcement transparency by informing people in advance of changes in rules and regulations and frequent interaction with businesses with a view to provide high quality services. China is pressing ahead with an information based clearance system. Implementing the "Integrated Clearance System" project includes a "5 plus 2" days rule for all cargo clearances, and declaring Shanghai a "sleepless" port. For expediting clearance, measures such as advance customs declaration with release upon arrival of goods, fast clearance for particular sectors, special measures for high-tech industries, EDI implementation, have been adopted. The underlying philosophy is to adopt measures that facilitate trade, enhance security and promote domestic and international development.

Shanghai port and customs have enhanced the security of international trade through the installation of the Global Positioning Systems, introduction of large-scale container scanning equipment and round-the-clock supervision and control at check points. The port authority also provides a "goods arrival report" to ensure conformity with the CSI.

The need for customs modernization and reform normally arises from the identification of common barriers to the free flow of goods. Such barriers include the discriminatory power of the customs officials, lack of transparency and accountability of customs officials, ambiguous and unpredictable customs rules, scarce use of technology, lack of coordination between ports and customs, limited access to rules and regulations, time delays in obtaining VAT refunds etc[22].

The basic elements of a successful Customs reform are clear. Effective customs reforms have to extend to human resource development, building capacity of management and administration, addressing integrity, and investments in ICT infrastructure. Three very important ICT requirements for customs reform include paperless transactions, a single window approach and cooperation for cross border exchange of data. Philippines, for example, faced several difficulties in the implementation of the revised Kyoto protocol arising from inadequate infrastructure to perform pre-arrival processing and absence of a mechanism to allow release through deferred payment. Its weak security and enforcement mechanism was further emphasized by the lack of screening machines and manual inspection of cargoes.

There is also need to evolve effective inter-agency co-operation since procedural requirements often begin prior to arrival of goods in customs. Use of Pre Shipment Inspection (PSI) has often turned out to be expensive with the wrong incentives and generated mixed results. Pakistan[23] outsourced customs valuation functions to PSI companies, which was not cost-effective and more of a short-term solution. Successful

[21] See Presentation by Shanghai Customs Administration
[22] For experience of Bangladesh with Customs reform, refer to paper presented at Dhaka conference.
[23] See TF and Customs reform case study of Pakistan by Mansoor Ahmad

reform requires stronger partnership between Customs and outsider technical experts. External assistance can often impact the morale of Customs. Instead of relying solely on such assistance, several reforms can be carried out internally. In-house customs reforms focused on administrative efficiency, improved technology and standardization, greater transparency, accountability and simplification have resulted in greater use of modern technology in Pakistan. The private sector can often jumpstart the customs modernization process, as in the case of the Philippines (See Box 4).

Box 4. Need for private sector: Lessons from the Philippine experience[24]

Philippines undertook major reform initiatives between 1992 and 2002, whose success was widely acknowledged. Automation of segments of the cargo clearance process, use of generic customs software, establishment of clear norms for public information, with private sector involvement and government support drove the process.

However, with a drying of financial resources, failure of other trade sectors to catch up, and pervasive corruption, the momentum of these reforms could not be sustained. The Philippine experience in trade facilitation and customs Modernization was a partial success at reform by the Customs Service. Recent government efforts at restart the reform process has proved to be difficult. Fortunately, facilitation and modernization is operative – pushed not by the government this time but by the business community itself.

The WTO July Package has also highlighted collaborative capacity building[25] efforts by international organizations such as the World Bank and the World Customs Organization (WCO). The latter is involved in setting rules and standards, capacity building, international cooperation and sharing of best practice information. The Geneva Convention and the Revised Kyoto Convention are importance instruments that can foster change.

7. Trade Facilitation Beyond Customs

Logistics and Ports

Given that 90% of the global trade is carried by sea, efficiency of the maritime industry is a critical determinant of competitiveness, and thus of trade facilitation. Trends in the global maritime industry have indicated a movement to larger and more efficient container vessels and an increase in container trade from 100 million TEU in 1996 to over 300 million TEU in 2004. Ports thus have to be capable to handle large vessels and cope with increasing client pressures. Modern ports need to strike the right balance between cost, reliability, speed and flexibility. Smart investment in the right technology, manpower and management systems that ensure this balance can lower dwell times (that are often much higher than the accepted norm). In addition, right policies can have an impact on port and logistic efficiencies.

[24] For more detail please refer to experience of Philippines with Customs Reform

[25] The WCO has produced a strategy for capacity building in Customs on behalf of the international customs community.

Standards

At the conference in Shanghai, the definition of TF was broadened to include technical barriers to trade facilitation. Standards and technical regulations are used to reduce the chance of health and environmental risks. An expansion in the volume, variety and technical sophistication of products and rising concerns over the safety of food has led to an increase in the number of standards and technical requirements. Developing countries have expressed fears regarding this proliferation and the impact on their competitiveness. Very often, inability to comply with standards prevailing in the foreign country can create a barrier to entry into the importing market.

Standards in reality can encourage adoption of better quality procedures and processes, promote investment in technology, and reduce the trading costs. The World Bank[26] emphasized the importance of standards in the trade of agricultural and food products given their perishable nature. Developing country concerns regarding SPS/TBT were highlighted in the country presentations made by China[27] and Indonesia[28]. While no best practice information is available in this area of development assistance, the private sector can play in important role in capacity building and technical cooperation to conform to international standards. The World Bank stressed the need for multilateral capacity building focused on smaller economies. China suggested establishing a system of technical measures to trade, active participation in pre-establishing of TBT, early warning and quick response mechanism, utilizing the WTO notification system etc. Dissemination of information on standards, training courses and enhanced capacity to participate in international standardization activities can help ensure that SPS/TBT measures and trade facilitation work simultaneously.

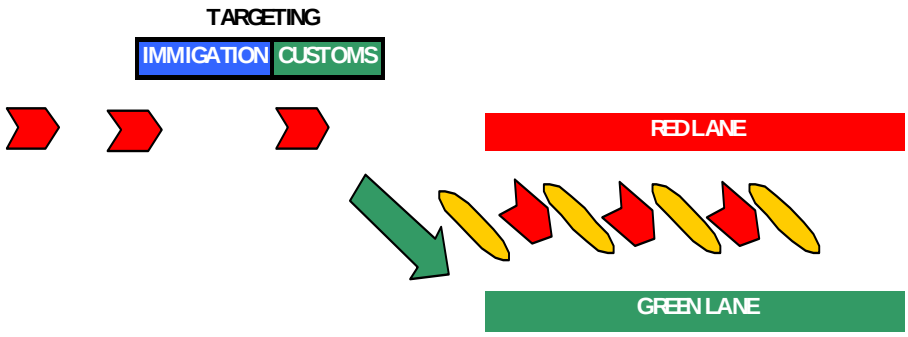
8. Other Issues

Sharing border facilities[29] can reduce costs considerably…

About 15% is added to the costs while passing through a border[30]. Countries sharing a border can integrate their border posts or booths (i.e. shared targeting by immigration/customs) in order to reduce border-crossing costs. Sharing equipment and infrastructure for truck inspection, sharing data and intelligence can expedite passenger traffic and generate economies of scale – thus facilitating trade. This concept of sharing can extend to IT, space, procedures and control depending upon the physical infrastructure available and the model selected[31].

[26] See presentation by Cornelis van der Meer (World Bank)
[27] See presentation by Xia Youfu (China Research Center for TBT/SPS)
[28] See presentation by Halida Miljani (Indonesia)
[29] Please see presentation by Michel Zarnoweicki of the World Bank for an overview.
[30] A border is a point of exchange, a place where the status of the goods is established and/or changed given the clear establishment of national sovereignty.
[31] There are several models - Classical, French, Channel Tunnel, US-Canada model etc., all of which have their own advantages, disadvantages and requirements.

Figure 3. Integrating customs/immigration for shared targeting can reduce costs…



Source: Michel Zarnoweicki (World Bank) presentation on 'Borders and Shared Facilities'

One option to border-sharing is to carry out a phased introduction that initially focuses on simplified processing for traffic (using red and green channels, targeting booth for customs and border police, examination bays), and then graduating to the joint facility. Prior to establishing a joint facility, it is important to determine the type and volume of traffic and trade, time taken to cross the border, relations between the border agencies and with neighboring country.

However, sharing facilities can often increase the time required for clearance and create legal hassles concerning the applicability of country legislation. Problems might arise with respect to administration and responsibility issues between the two countries sharing the facility e.g. consensus on the road between the facility and the actual border.

The Greater Mekong Sub-region (GMS)[32] Cross-Border Transport Agreement (a multilateral agreement ratified by all GMS countries) brings to light issues related to sovereignty and conformance with national laws; consensus on modalities of Single-Window Inspection (SWI) and Single Stop Inspection (SSI); measures to facilitate transit traffic etc. It covers in one document all the relevant aspects of cross-border transport facilitation, which includes transit traffic regimes, requirements for road vehicle, SSI, SWI, and cross border movement of persons. The agreement applies to selected and mutually agreed upon routes and points of entry and exit in the signatory countries, with initial implementation at select border crossings is scheduled for 2005-07.

….for which Single Window inspection [33]is key

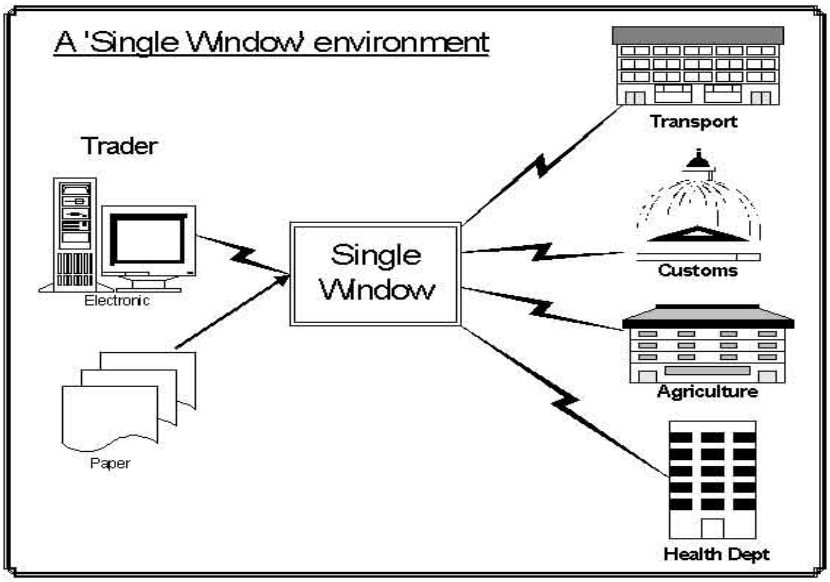
Given the plethora of shipping documentation, a single window would provide a one-stop shop solution to the trader, and balance trade facilitation with controls dictated by

[32] Please see Presentation by ADB on its efforts towards single stop customs inspection and agreement on GMS

[33] Please refer to presentation by Tom Butterfly of UNECE on the single window approach, including guidelines for its establishment.

domestic policies and international agreements. It would involve providing documents that fulfil all export, import and transit related regulatory requirements at a single entry point – thus reducing turnaround time and labor costs (See Figure 4). UN/CEFACT (United Nations Center for Trade Facilitation and Electronic Business) developed a set of recommendations based on an analysis of single windows in 20 existing and planned countries. Close collaboration and dialogue between all government authorities and the business community, political will on the part of the government, and clear objectives are essential for the success of the single window concept.

Figure 4. Single Window approach to Trade Facilitation



Source: Presentation by Tom Butterfly, UNECE.

Several best practice examples that employ different versions of this concept can be drawn upon to encourage implementation by developing countries (See Box 5)[34]. In Sweden, a single authority receives all relevant information (via paper or electronically) and transmits this further to the appropriate government authorities. Almost 94% of all customs declarations are submitted using this approach annually. The benefits are clear: a single interface for all trade information, no additional document requirements, release time in 90 seconds, and better collection by Customs. The United States on the other hand, uses an integrated single automated system that collects, stores and transfers all information related to a trade transaction. Standardization and harmonization resulted in a reduction in the number of data elements from 3000 to 200.

[34] See international examples of implementation of this approach

Box 5. Singapore TradeNet: Single Window in practice[35]

Singapore avails of an integrated information system through which a trader submits electronic trade declarations to the authorities for processing and approval in a single application – and receives approval notification electronically from the relevant parties. The design and development process of the TradeNet underwent various iterations, and included formation of a committee, a detailed study of the trade document business processes, review of manual processes and trade documents, legislative acts etc. The participants include the private sector (exporters, importers, terminal operators, shipping agents, freight forwarders etc.), various government agencies, and service providers.

Using over 1000 customs officials and 3000 declaring agents, the volume of TradeNet is about 30,000 a day, with processing and approval of a declaration taking place within 5 minutes. This has resulted in trade transactions that are cash-less, paperless, faster, convenient, and less costly. The positive results can be seen in terms of lower freight costs, improved order cycle time, reduced inventory, and better customer service. While several key technical considerations have to be kept in mind to apply this business model to a particular country[36], some steps such as adoption of international standards on trade documents, automation etc. can be made in advance to reduce time. Issues such as data protection, trust on the part of customers, risky investment and consensus by all stakeholders have to be dealt with.

Trade Security and Facilitation are two sides of the same coin…

Security underpins the realization of trade facilitation. The post-9/11 trading environment is starkly different from before, with the introduction of new security protocols. The need to facilitate the secure movement of cargo has been recognized. The focus has been on shipping (container cargo) since 90% of global merchandise is transported on container ships and about 200 million containers move among the worlds largest sea ports annually. Several initiatives, led primarily by developed countries, have been developed to tackle security issues: Container Security Initiative (CSI or targeting and screening prior to loading), Customs-Trade Partnership Against Terrorism (C-TPAT), Operation Safe Commerce (OSC), Advance Cargo Information (via the US 24-hour rule), Smart and Secure Trade Lanes (launched by Strategic Council on Security Technology) etc.

The objective underpinning these security protocols is identical – efficient trade facilitation with maximum security. For example, the International Ship and Port Security Code (ISPS) developed by the International Maritime Organization (IMO) came into force in July 2004. It requires port vessels and facilities to have a minimum level of security, prevents entry of unauthorized goods, emphasizes exchange of information etc. By August 2004, approval had been granted to ISPS plans for 89.5% of the 9000 declared port facilities.

[35] Please see presentation on experience of Singapore in implementing the Single Window.

[36] The Mauritius Trade Net, modeled on the Singapore model led to greater transparency and a decline in processing times of customs declaration from several days to 15 minutes. Tunisia and Ghana are at different stages of adapting this version.

Possible dangers of implementing such standards and procedures that balance security and TF needs are added costs, especially for developing countries. Security proposals can affect global supply chains by requiring costly changes in business practices, process redesigns, and new equipment. Developing countries often lack the expertise, manpower and the resources to conform to the new requirements. Costs incurred for securing the facility stemming from the ISPS code are expected to be $963 million in Year 1,and $535 million annually thereafter. The paperwork alone would require 1.7 million hours in Year 1, and 1 million hours per year thereafter. The threat of exclusion remains large – the possible relocation of production and commerce to 'safe areas' can adversely affect certain countries. The 24-hour rule could shun those countries unable to provide the cargo manifest information in the time allotted.

At the same time, the prospect of reducing future threats through technology-intensive customs inspections and other advanced methods should be viewed as an investment in greater trade efficiency. Reduction in smuggling and corruption, and an increase in detection rates are likely outcomes. The use of innovative technologies like gamma ray detection facility and smart containers for ports for example, will reduce the need for physical inspection of cargo as well as make ports more secure. Modern customs methods of profiling consignments or traders based on risk-assessment techniques can help expedite cargo clearance[37]. The Swedish StairSec program, developed in customs-business partnership, saw compliance costs for some Swedish accredited operators reduced by 76% while Customs witnessed an increase in hit rates from 5-45%[38].

The costs of inaction on the integrated agenda for balancing security and TF issues far outweigh the cost of implementation in the long run. Care has to be taken to ensure that trade security does not become a new non-tariff barrier. New security protocols have the potential to streamline trade transactions as well as promote safety and security. For proper security of ports and more efficient trade, security and supply chain management (SCM) has to go hand in hand. The integration of SCM and security has to be done in a way that minimizes disruptions to routine operations, reduces chances of port closures, develops security services and border-less supply chains, and achieves an end to end cargo transparency (smart cargo) by linking different networks. TF and security have to be incorporated in the national and regional trade strategy (e.g. APEC STAR initiative). Use of standardized and harmonized documentation and focus on implementation of new and old TF tools should be encouraged. A risk management technique that identifies high-risk goods based on information provided at an early stage of the supply chain by a credible source can also be integrated.

For complete security of the supply chain, partnerships at various levels in the global security campaign action are needed. Private-Public partnerships through integrated and secure supply chains can also go a long way in making trade efficient and secure. All organizations and agencies involved in transport, ports must collaborate with country

[37] Detail on impact of security on Trade Facilitation in terms of costs, benefits, recommendations can be found in Global Economic Prospects 2004 (World Bank).
[38] For more on the private sector approach to tacking security, refer to presentation by HPH (Hutchison Ports Holdings) on Smart and Secure Tradelanes.

governments[39]. The issue of TF and security has to be discussed at the global level by involving bilateral and multilateral donors in providing technical assistance and capacity building. Such engagement should pay special attention to the needs of developing countries.

9. Tools for Trade Facilitation and Need for Assistance and Capacity Building

Given the high costs involved in facilitating trade, especially for developing countries, several organization are working at the regional and multilateral level to strengthen capacity for trade facilitation. Tools that expedite the movement of good and services across borders have been developed to reduce costs further and contribute to the goal of trade facilitation The need for technical assistance and capacity building was also acknowledged by the WTO July 2004 Framework Agreement. A successful TA program requires prioritization, internal and external coordination, partnerships, evaluation of program, identification of specific needs and commitment on part of the country government.

The UN/CEFACT[40] is responsible for the development and maintenance of international standards at the global level. UNECE provides easy electronic access to all UNECE codes, recommendations, standards and publications on its website. Examples of UNECE Standards include UN Layout Key for Trade Documents, UN LO Code for ports, UN/EDIFACT standards for electronic trade, Single Window Recommendation (described above) and Guidelines, Transport-related standards and conventions. UNECE Tools include UN/CEFACT supply chain reference model, electronic documents for paper and paperless trade (UneDocs), Benchmarking Guide and Guide to TF Implementation, Trade documentation alignment and simplification etc. UNECE focuses on partnerships and cooperates closely with other UN Regional Commissions and multilateral organizations on TF issues. It capacity building efforts include workshops on TF in Malaysia, Moscow; Training (e-business standards, single window, UneDocs, TF strategy etc.).

The WTO[41] emphasizes building capacity for effective participation in negotiations and other related WTO work through tools such as trade policy and specialized courses, regional seminars, e-training, databases, CD-ROMs etc. Access to information is easy through the Internet. The Institute for Training and Technical Cooperation has separate divisions dedicated to all developing regions of the world. At the same time, the WTO partners with external organization such as IMF, OECD, UNCTAD, WB, regional UN bodies etc. The total number of requests for technical assistance was 1038, with almost 58% originating from developing countries.

[39] The Global Facilitation Partnership for Transportation and Trade, which includes several international, private, and professional organizations, has focused on facilitating trade—with security one of its themes.
[40] Please refer to presentation by UNECE on Tools for Trade Facilitation Implementation
[41] Further detail in Nora Neufeld's presentation on WTO Tools.

The WCO[42] serves as a medium for international cooperation and exchange of information. Its technical assistance program encompasses subject-specific assistance (origin, valuation, procedures etc.), seminars, workshops, expert missions etc. aimed at an effective modernization of customs (capacity building diagnostic framework). The WCO has developed several international instruments that guarantee an effective customs administration, the most being the Revised Kyoto Convention, whose principles have been incorporated in the national legislation by several countries.

Other WCO instruments relating to TF include a risk management guide for implementing risk management; WCO Data Model to establish an international, harmonized data set for cross-border trade, Immediate Release Guidelines for expeditious but controlled release small, low value goods across borders. The time release study, that measures the average time taken between the arrival and release of goods, helps customs identify bottlenecks in release of goods. Some examples of custom capacity building include E-customs, customs smart cards and WCO Asia Pacific Regional Office for CB in Bangkok. As mentioned earlier, the work of the WTO and WCO is complementary and not contradictory in terms of developing instruments to support WTO rules. WCO also provides TA and training to support those rules.

The World Bank has established a trade logistics group, driven the GFP for trade and transport (created in 1999), produced several toolkits and handbooks, and organized TF seminars. The World Bank has had 120 projects globally in the past decade with TF or Customs component. E.g. TTFSE, Tunisia, Vietnam etc. It has completed Transport Trade Facilitation (TTF) Audits in several countries that review the situation pertaining to international transport and trade in terms of transaction and transport costs. Its Customs Modernization Handbook is a resources manual that provides operational guidelines for a successful customs modernization strategy, drawing on several customs reform projects undertaken by the Bank. Performance Indicators related to Customs can employ a simple but universal methodology that includes benchmarking, targets and a process of monitoring and review[43].

The UNCTAD strategy involves building the right environment for TF through a combination of reforms, use of local knowledge and building deeper regional trade and transport linkages with global logistics systems. Its activities include research and analysis, training and capacity building, information systems development, knowledge creation and dissemination. UNCTAD also cooperates closely with all UN Regional Commissions and UN agencies (ITC, UNIDO, IMO, WB, IMF); inter-governmental organizations (WTO, WCO, OECD); and business sector institutions (ICC, FIATA).

Given the number of capacity building and technical assistance activities that are ongoing, coordination and cooperation between these organizations is essential to avoid duplication of efforts. Multilateral partnerships such as the GFP and the UN trade

[42] Refer to presentation by Simon Royals and Matsudaira of WCO on WCO tools and technical assistance.
[43] Some basic macro indicators include revenue collected/customs staff, declaration/staff, trade volume/staff, total customs costs/revenue collected, salaries/revenue collected, and were used to evaluate the TTFSE project.

facilitation network (created in April 2002 to improve coordination of TA among agencies) are examples of such collaborative platforms[44]. The success in any reform agenda to implement capacity building in trade facilitation must be accompanied by complementary investments in policy areas beyond logistics. Dismantling barriers to foreign direct investment, lowering tariff rates of protection, eliminating other non-tariff barriers that hinder productivity and private sector growth are also crucial.

10. Future Work

The two seminars clearly highlighted the need for trade facilitation, and its relevance in a multilateral context. The benefits from integrating trade facilitation into the national development strategy were also acknowledged by many countries. However, future seminars on this topic can cover areas that did not receive sufficient attention in these two workshops.

Trade Facilitation in the context of Regional Trade Agreements

Trade facilitation provisions are often embedded in RTAs. Trade agreements usually go beyond reducing tariffs to include measures aimed at reducing trade barriers associated with standards, customs, border crossings, and services regulations. Given the rapid growth in the number of regional/preferential trade agreements, a single country often becomes a member of several different agreements, each with different rules of origin, tariff schedules, periods of implementation – thus complicating customs administration.

Customs agents report that it takes longer to process goods covered by preferential arrangements, and longer processing times in turn drive up the cost of trade. Trade facilitation measures, when they come under an RTA, often have positive trade-creating effects for all trade partners (World Bank, Global Economic Prospects 2005). It thus becomes important to examine TF in this context, and discuss the relationship of RTAs with the WTO.

Conforming to WTO requirements

Given that TF is the only Singapore issue that has survived the talks at the WTO, its benefits in a multilateral context are clear. The starting point of the discussion should not concentrate on the benefits from TF, but what the WTO requirements mean for developing countries (including the issue of dispute settlement).

A related theme would be the nature of technical assistance/capacity building which are important elements for the successful implementation of trade facilitation programs.

[44] Several platforms for collaboration on TF have been outlined by UNCTAD. Facilitation Committees (a framework for consultation and cooperation between interested parties to provide recommendations); Facilitation clusters (geographical concentration of interconnected companies and institutions that compete and cooperate with a view to encourage knowledge sharing and provide practical solutions); cluster-corridor approach (Businesses and government control agencies can form clusters to improve their operations and find solutions for a particular corridor).

Assistance has been provided in the modernization of trade (customs and border-crossing) administration, implementation of multilateral instruments such as WTO Agreements; and infrastructure projects. The ASYCUDA customs software program is one of the largest technical assistance trade facilitation programs undertaken by the UNCTAD and is now functioning in over 80 developing countries. At the same time, experience has indicated that while IT and automation are helpful, they may not necessarily play a key role in CB. Simplification of the manual system is the first step for automation to be successful.

Businesses, governments and international organizations have been involved in capacity building linked with cross border transactions and customs issues for some time. It is important to learn lessons from previous capacity building efforts, especially from those that did not meet initial expectations. A summary of what strategies and measures have worked and what have not; importance of monitoring of programs after implementation; coordination between bilateral donors and international organizations etc. can be highlighted. The discussion can also point to examples of private-public partnerships in the development and execution of trade facilitation programs. Thus, best practice examples in terms of technical assistance and capacity building provided to push ahead with TF should be a part of the agenda.

Best practice lessons from Unilateral Trade Facilitation

Implementation of TF is often difficult for many developing countries. Common problems include too many players (too many signatures), need for vesting authority to one agency, inadequate legislation, insufficient resources (both human and financial terms) etc. Any movement toward harmonization in trade facilitation areas imposes different implementation costs on different countries, with higher costs on counties at lower levels of development.

It would be a useful exercise to cite countries that have been successful in overcoming implementation barriers. Case studies that examine success in introducing simplification of procedures, introducing EDI, reducing cargo dwell times, creating inquiry points, adopting pre-arrival processing etc. can be examined in detail. A related topic would be problems faced by developing countries in adopting and implementing internationally developed standards such as Kyoto Protocol, Unified Set of Documents etc.

Experience with employing risk management techniques

More emphasis needs to be laid on methods for risk management and the experience associated with its adoption by developing countries. Risk assessment techniques (rather than inspection of individual consignments) reduce time, resources and levels of error. A risk management system screens for high and low risk factors to determine the level and location of non-compliance. By focusing on transactions that merit attention, they promote effective use of resources. Chile estimated savings of US$1 million each month through automation and a greater use of risk assessment.

In general, for risk management to be successful, it must be applicable to the whole logistics chain and address all aspects of control. Risk management can also be extended to the issue of security and provide incentives/reward for compliance. Given the heightened security environment, a risk-assessment template targeting high-risk areas for special security programs can be adopted. Since it is impossible to screen and inspect all containers, procedures to identify high-risk containers—by detecting irregularities in shipping patterns for example—could be deployed.

Measuring Trade Facilitation

Indicators for trade facilitation can provide a basis for analyzing the impact of trade facilitation on development, as a benchmark for regional comparisons and for measuring the effectiveness of domestic reform processes associated with accelerating trade facilitation. Trade facilitation indicators can measure the performance of a particular reform, the efficiency of ports, customs etc. or can be a composite index combining different elements that make up trade facilitation. Trade facilitation has most often been proxied by a single indicator, such as import prices, international transport costs, or the productivity of a particular transportation mode (air, maritime, road). These traditional measures have to be replaced by something more consolidated that can be used more widely and that reflects transport and logistics efficiency.

Work on indicators and data bases is being carried out by several organizations such as the World Bank[45], UNECE etc. Data are currently available easily for indicators of port efficiency, transport, infrastructure and investment/business climate. Indicators that rank countries on usage of ICT, corruption, regulatory framework, governance etc. are available. SPS and TBT are issues have received less importance. Current data on trade facilitation suffers from lack of harmonized definitions and measurement tools, limited country coverage, poor quality, lack of time series data sets etc.

Performance indicators for Customs for example, include clearance times, rates of examination, detection rates etc[46]. While there exist several data sources, there is no uniform and commonly accepted definition of customs clearance times. Measurement methodology differs around the world and there is no standard template or methodology for calculating, on a time series basis, days required to clear customs at national points of entry. For instance, inland clearance time can be the time from arrival of truck until the time of release. Thus, clearance of international cargo will be slow if the entire process of manifest filing, declaration, assessment, duty payment, and examination are taken into account. The World Bank Investment Climate Assessments calculation is based on firm-

[45] The Bank developed trade facilitation indicators for APEC countries in four key areas of trade facilitation: port efficiency, customs procedures, the regulatory environment and e-commerce capacity. The analysis suggests that improved trade facilitation could increase intra-APEC trade by $254 billion, or 21 percent (Wilson, Mann and Otsuki, 2003a). Wilson, Mann and Otsuki (2003b) extend this analysis to 75 countries. Their results suggest that trade facilitation measures that bring countries 50 percent up towards 'best practice' could expand total trade by $377 billion.

[46] See TTFSE methodology for measuring border processing and clearance times.

level surveys, while TTFSE measures clearance at the border. Comparisons are often not valid if different definitions are applied.

Development of indicators measuring trade facilitation by different organizations, identification of useful sources and measures, determining data gaps etc. comprise an area that warrants detailed examination. A further step might be to show how these trade facilitation indicators have an impact on trade flows, and the relationship between trade flows and transaction costs.

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